

## **Non-discretionary General Fund Increases for Fiscal Year 2003**

***To maintain existing services, state needs \$42.7 million to replace lost federal and short-term fund sources, plus \$57 million in other costs***

Each year, critical needs for additional funding — such as child protection and education — tend to receive the greatest attention in news stories and legislative budget discussions. Less well known are the funding increases required to maintain the existing level of state services. These non-discretionary cost increases include debt service, contractual obligations and replacement of one-time or short-term funding sources with state general funds. Services that must accommodate increases in business activity or population will end up with waitlists or delays unless funds are provided to meet the additional demand.

This paper outlines major elements of the \$99.7 million state general fund increase required next year to maintain the same level of services Alaska citizens, businesses and communities receive today. This amount is less than the earlier estimate of \$115.5 million primarily due to a \$14 million decrease in the estimate needed for the K-12 foundation formula.

### ***Paying Debt Service on State Bonds: \$9.3 million***

Smaller general fund budgets in recent years were achieved partly by financing capital projects with bonds rather than cash: schools, university deferred maintenance, ports and harbors, etc. Since bond payments don't start until at least a year after projects are authorized, the budget impact is delayed. As a result, an additional \$9.3 million in general funds will be needed for debt payments next year. (See attached detail.)

### ***Annualizing Programs that Started in FY2002: \$4.7 million***

Facilities that open part way through this fiscal year need a full 12 months of funding next year. The additional months will cost \$1.9 million for the Anchorage Jail, \$110,000 for the Ketchikan Youth Facility and \$259,000 for the Bethel Health Center. Full year costs will add \$2.2 million for new drunk driving, therapeutic court, and victim restitution laws, and \$330,400 for Village Public Safety Officers, constables and emergency communications. The FY2003 phase of the statutory increase in rates paid to assisted living homes will require \$1.3 million. Funding for the Office of Public Advocacy (OPA) and Public Defender Agency (PD) has typically been split by the legislature between the regular and supplemental budgets. The governor's December budget includes the full annual amounts: an increase of \$1 million for OPA and \$1.3 million for the PD.

The annualization total of \$4.7 million is net of \$3.8 million in one-time appropriations that will be cut from next year's budget.

### ***Meeting Contract Obligations: \$20.7 million***

Approximately \$13.4 million will be needed to fund the third year of labor contracts within the executive branch. (University, court system, and legislative budgets will need another \$8.3 million.)

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National Guard retirement costs will go up almost \$500,000. Many of the state's contracts with the private sector will also increase, including \$2.5 million for leases and \$207,100 for halfway house beds in Corrections. State reimbursement of school district contracts for pupil transportation will go up approximately \$3.3 million.

### ***Maintaining Services when One-time or Short-term Funding Ends: \$42.6 million***

State budget reserves benefit when federal or other funds help foot the bill for basic services, even if those other sources are not permanent. However, when we lose those funds, state general funds must replace them because we can't simply eliminate the services. Replacing multi-year federal grants will require \$4.1 million of general funds in Corrections and \$1.2 million in Health and Social Services. Another \$1.6 million which the Mental Health Trust has provided on an interim basis will have to be replaced in next year's budget. New federal restrictions on the Medicaid Proshare funding mechanism require replacement of the \$18.7 million saved this year. The Post Secondary Education corporation dividend which paid for \$2.0 million of the FY2002 university operating increase will be replaced with on-going general fund support in the governor's budget. (The dividend will be used in the capital budget instead.)

Because of decreasing general fund support of the Marine Highway System over the last several years and revenue losses due to unexpected events (the Canadian blockade and Columbia fire), the Marine Highway fund will be fully depleted during FY2002. Next year, \$11.1 million that currently comes from the Marine Highway fund will have to come from the general fund instead.

When the Alaska Science and Technology Foundation was created in the 1980's, its earnings were tapped for University of Alaska funding, supposedly on a one-time basis. With the market down turn, \$2.6 million of ASTF earnings are no longer available for UA and must be replaced with general funds.

### ***Statewide Election Costs: \$1.9 million***

Every other year, the budget goes up to pay the cost of state elections -- poll workers, computer services, Alaska Public Offices Commission, etc. Next year's budget also includes second year costs for the closed primary, \$350,000 in transition costs for a new administration, a toll-free line for voter questions, and modest pay increases for election workers, most of whom have made only \$7.50 to \$8 an hour since 1982.

### ***Statutory Program Increases: \$2.1 million***

As population grows, so does the cost of services the state must provide to all Alaskans who qualify by statute; these are known as "formula programs". Medicaid will increase \$7.9 million next year due to an overall caseload growth of 3.56% and health care cost increases of 16.29%. (Some refinancing options and federal law changes are needed to keep this number from being much higher.) Foster Care and Subsidized Adoption programs will need \$3.7 million to meet caseload growth. Adult Public Assistance anticipates a 4.2% caseload growth and cost increases bringing the FY2003 need up by \$2.5 million. Tuition for students in foster care and out-of-state institutions will increase \$550,000. Offsetting some of these increases, the continued phase-out of the Longevity Bonus program and other formula program adjustments will save \$12.6 million.

### ***Meeting Increased Workloads and Reducing Backlogs: \$14.8 million***

The single largest amount in this category is \$2.7 million for Corrections, much of which is the direct result of more prisoners. The main elements are \$1.7 million for inmate health care, \$400,000

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for cost increases of keeping state prisoners in community jails, \$495,800 to operate the new management information system and \$100,000 for increased Parole Board activity.

Successful economic development requires the ability to meet increased business demand and move to new technologies widely used by the private sector. Several general fund increases are to meet current and forecast levels of industry needs: \$154,900 to reduce backlogs in enforcing compliance by water system operators; \$99,500 for approval of a site-specific storm water pollution prevention plan; \$302,500 for the increased volume of Fish & Game habitat permit requests in Mat-Su and Kenai; \$332,200 for backlogged inspections of electrical systems and boilers; \$102,000 for investigations of wage and hour violations; \$250,400 for shallow gas exploration licensing, permitting, and financial compliance; and \$300,000 for title updates of RS 2477 rights-of-way and federal land transactions.

To maintain the aging payroll system until it can be replaced, Finance needs \$225,600 for additional programmers. API and psychiatric crisis respite cost increases will be \$1.3 million. Child Support Enforcement needs \$100,000 to keep caseloads from exceeding 1,000 per worker. An additional \$215,000 is needed for Public Safety's increased costs of prisoner transportation, rural trooper housing, and emergency guards.

The Department of Transportation and Public Facilities has cost increases of \$4 million to implement the Marine Highway System's operating plan, \$429,200 for utilities and highway accident damage repairs, \$255,000 for rural airport maintenance contracts and \$2.1 million for the state equipment fleet. Despite increased numbers of state park facilities over the past several years, there has been no increase in the Parks budget; \$700,000 would go part way toward covering the costs of inflation and greater territory managed by the division.

### ***Increased Fuel and Utility Costs: \$3.6 million***

Several department budgets have been particularly hard hit by fuel cost increases. The Department of Transportation and Public Facilities has the largest need: \$1.8 million to cover the increased fuel costs for heavy equipment, marine highway vessels, state vehicles and public facility heating.

## **State Debt Overview**

(Dollars in thousands)

<b>Obligations</b>	<b>FY2002</b>	<b>FY2003</b>	<b>Increase/ (Decrease)</b>
School Debt Reimbursement (estimated maximum)	57,020.5	56,378.4	(642.1)
Lease Finance			
Alaska Psychiatric Institute		1,635.9	1,635.9
Palmer Airport Fire Facility	766.8	759.7	(7.1)
Spring Creek Correctional Facility	4,021.6	4,002.0	(19.6)
Palmer Courthouse	415.8	415.5	(0.3)
Kenai Courthouse	563.0	566.4	3.3
Anchorage Times Building	789.7	789.4	(0.2)
Soldotna DOT Maintenance Facility	637.3	636.6	(0.7)
Anchorage Health Lab	2,261.3	2,287.6	26.3
Fairbanks Courthouse	2,894.5	2,899.5	5.0
Trustee Fees	80.0	100.0	20.0
Atwood Building	3,549.4	3549.4	0.0
Anchorage Jail	3,555.7	5,211.1	1,655.4
AHFC Debt for Government Purpose Bonds	44,000.0	50,000.0	6,000.0
Tobacco Settlement Bonds (2001 - schools)	20,650.1	21,016.5	366.4
<b>Total Debt Obligations</b>	<b>141,205.7</b>	<b>150,248.1</b>	<b>9,042.3</b>
<b>Revenue Sources</b>			
Cigarette Tax (constitutionally dedicated to schools)	29,049.1	28,734.5	(314.6)
Cigarette Tax FY2002 roll forward		271.8	271.8
AHFC Dividend	50,000.0	50,000.0	0.0
Palmer Facilities Investment Earnings	723.0	0.0	(723.0)
Debt Retirement Fund Balance	0.0	156.7	156.7
Tobacco Settlement Bonds (schools)	20,650.1	21,016.5	366.4
<b>General Funds Required to Pay Debt</b>	<b>40,783.5</b>	<b>50,068.6</b>	<b>9,285.0</b>
<b>Total Revenue Sources</b>	<b>141,205.7</b>	<b>150,248.1</b>	<b>9,042.3</b>

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Note: In addition to the debt obligations listed above, the Alaska International Airport System and state corporations such as AHFC and AIDEA issue and pay for debt for their own corporate purposes. This debt does not require any general funds. Also, the Alaska Clean Water Fund and Alaska Drinking Water Fund are capitalized in part from debt paid for by their respective fund earnings.